

Message Text

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ORIGIN TRSE-00

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02
CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 PA-02 PRS-01 L-03 H-02 /099 R

TX 387

DRAFTED BY TREASURY:CNOLLER
APPROVED BY EB/IFD/OMA:RJRYAN
TREAS:GCARLSON
TREAS:DSYVRUD
EA/J:DFSMITH
EB/IFD/OMA:TAFORBORD
-----271641Z 068255 /65
R 271447Z JAN 77
FM SECSTATE WASHDC
TO AMEMBASSY TOKYO

UNCLAS STATE 018503

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: TAXATION OF FOREIGN BANKS IN JAPAN

REF: TOKYO 0306

1. U.S. GOVERNMENT CONSULTATIONS IN JUNE, 1976 REVEALED
THAT JAPANESE GOVERNMENT DID NOT INTEND TO PRESS FOR USE OF
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CENTRAL BANK DISCOUNT RATES IN DETERMINING INTEREST EXPENSE
OF FOREIGN SOURCE FUNDS. JAPANESE DID NOT EXPLAIN WHAT
THEIR POSITION ON COSTING FOREIGN SOURCE FUNDS WOULD BE.

2. SEC 861 IRS CODE HAS BEEN ADOPTED INTO LAW AND IS NOW
BEING APPLIED TO JAPANESE BANKS IN U.S. WITH RESPECT TO
COST OF FOREIGN FUNDS, IT HOLDS THAT INTEREST EXPENSE
DEDUCTION AGAINST FOREIGN INCOME SHALL BE ON A PRO RATA
BASIS WITH RESPECT TO EITHER INCOME OR ASSETS. THUS, IF A

JAPANESE BANK HAD DOMESTIC INCOME (OR ASSETS) OF 400 AND
U.S. OPERATION INCOME (OR ASSETS) OF 100, 20 OF THE BANK'S
TOTAL INTEREST EXPENSE WOULD BE DEDUCTABLE FROM U.S. INCOME
(100) FOR TAX PURPOSES.

THE JAPANESE OPPOSE THIS METHOD AND LOBBIED FOR
"SEPARATE ENTITY" TREATMENT, WHICH PROVIDES THAT ACTUAL
INTEREST EXPENSE OF THEIR U.S. FUNDS WOULD BE USED FOR

PURPOSES OF TAX CALCULATIONS. THE INCOME TAX TREATY OF
1971 MAY ACCOMMODATE EITHER APPROACH, BECAUSE IT IS RATHER
UNCLEAR ON THE SUBJECT. FURTHERMORE, THE TREATY, WHERE
IT APPLIES, TAKES PRECEDENCE OVER THE IRS CODE.
CONSEQUENTLY, MORE DISCUSSION WITH THE JAPANESE ON
SEPARATE ENTITY TREATMENT IS EXPECTED.
VANCE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TAX LAW, BANKS, INCOME TAXES
Control Number: n/a
Copy: SINGLE
Sent Date: 27-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE018503
Document Source: CORE
Document Unique ID: 00
Drafter: CNOLLER
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770029-1222
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770112/aaaaajzy.tel
Line Count: 78
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: d6b8b5cf-c288-dd11-92da-001cc4696bcc
Office: ORIGIN TRSE
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 77 TOKYO 306
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 12-Oct-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3482555
Secure: OPEN
Status: NATIVE
Subject: TAXATION OF FOREIGN BANKS IN JAPAN
TAGS: EFIN, JA
To: TOKYO
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/d6b8b5cf-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009